

Message Text

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ACTION SS-25

INFO OCT-01 ADP-00 SSO-00 /026 W

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P 201544Z JUL 73

FM AMEMBASSY BONN

TO SECSTATE WASHDC PRIORITY 6405

C O N F I D E N T I A L SECTION 01 OF 02 BONN 10360

EXDIS

DEPARTMENT PASS FEDERAL RESERVE AND TREASURY FOR
UNDER SECRETARY VOLCKER AND L. WIDMAN

E.O. 11652: XGDS-L

TAGS: EFIN, GW

SUBJECT: CONVERSATION WITH FINANCE MINISTRY STATE
SECRETARY POEHL

REF: BONN 9814

1. SUMMARY: STATE SECRETARY POEHL IN A CONVERSATION WITH ME TODAY WAS RELATIVELY RELAXED CONCERNING THE CURRENT MONETARY SITUATION AND INDICATED THAT IN HIS VIEW THE DOLLAR/DM RATE WOULD STABILIZE IN THE DM 2.30-2.40 RANGE IN THE SHORT TERM WITHOUT THE NEED FOR MASSIVE INTERVENTION AND DESPITE OF SOME RENEWED ASSET SWITCHING INTO THE DM BY CENTRAL BANKS. POEHL FELT THAT GERMANY PROBABLY SHOULD BEGIN TO RELAX ITS EXTREMELY TIGHT MONETARY POLICIES IN THE FALL AND THAT THE INFLOW OF OTHER EC CURRENCIES THROUGH THE OPERATION OF THE EC SNAKE MIGHT BE AN ELEGANT WAY OF ACCOMPLISHING THIS. POEHL WAS GENERALLY RELAXED REGARDING US DOMESTIC ECONOMIC POLICIES AND NO LONGER SEEMED TO ENVISAGE A STRONG FRG DEMARCHE IN THIS FIELD AT THE TIME OF THE UPCOMING C-20 MINISTERIAL MEETING. THE FRG IS STILL CONSIDERING WHETHER TO SUGGEST A LARGE US DOLLAR BOND ISSUE ON THE EURO-MARKET. POEHL WILL BE SUGGESTING TO MINISTER SCHMIDT AN FRG
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INITIATIVE AT THE C-20 FOR COMPROMISES ON ALL THE MAJOR

OUTSTANDING INTERNATIONAL MONETARY REFORM ISSUES. HE WILL, HOWEVER, NOT SEE SCHMIDT PRIOR TO HIS ARRIVAL IN WASHINGTON AND IS NOT YET SURE OF SCHMIDT'S REACTION TO THE PROPOSED INITIATIVE. END SUMMARY

2. AS WE HAD AGREED AT OUR LAST MEETING (SEE REFTEL), I AGAIN MET TODAY WITH STATE SECRETARY POEHL FOR AN EXCHANGE OF VIEWS CONCERNING THE INTERNATIONAL MONETARY SITUATION AND THE UPCOMING C-20 MINISTERIAL MEETING IN WASHINGTON. POEHL SAID THAT HE WAS RELATIVELY RELAXED CONCERNING THE CURRENT MONETARY SITUATION. THERE HAD BEEN ONLY MINIMAL INTERVENTION ON THE FOREIGN EXCHANGE MARKETS AND THE DOLLAR/DM RATE SEEMED TO BE STABILIZING IN THE \$L EQUAL TO DM 2.30-2.40 ZONE. THE GERMANS HAD INDICATIONS THAT SOME CENTRAL BANKS WERE AGAIN SWITCHING DOLLARS INTO DM AND THIS WAS PUTTING SOME PRESSURE ON THE RATE AND PREVENTING IT FROM RISING INTO THE UPPER 2.30'S. ON THE OTHER HAND THESE CENTRAL BANKS SEEMED TO GET OUT OF THE MARKET WHEN THE DOLLAR SANK BELOW DM2.30 AND THIS GAVE THE RATE SOME STABILITY. POEHL SAID THAT HE ASSUMED THAT THE CENTRAL BANK SWITCHES INTO DM WAS SOMETHING ONE HAD TO RESIGN ONESELF TO. THERE WAS NOT MUCH ONE COULD DO ABOUT IT AND IN A SENSE IT COULD BE CONSIDERED TO FIT IN WITH THE INTENTIONS IN THE INTERNATIONAL MONETARY REFORM TO GET AWAY FROM ONE SINGLE RESERVE CURRENCY. THE OIL PRODUCING COUNTRIES WERE A SPECIAL CASE, HOWEVER, AND AT SOME POINT ONE WOULD HAVE TO TALK TO THEM ABOUT THEIR INVESTMENT POLICIES. POEHL SPECIFICALLY MENTIONED KENYA AND MALTA AS COUNTRIES CURRENTLY SWITCHING CENTRAL BANK ASSETS INTO DM AND OBSERVED THAT MALTA PROBABLY WAS NOT ACTING FOR ITSELF, BUT FOR LIBYA AND POSSIBLY OTHER ARAB COUNTRIES. HE ALSO MENTIONED THAILAND AND CEYLON AS THE TYPE OF COUNTRIES WHO COULD BE EXPECTED TO WANT TO SWITCH SOME CENTRAL BANK ASSETS INTO DM.

3. POEHL SAID THAT THE CURRENT VERY HIGH GERMAN
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DAILY MONEY RATES ALSO WERE CONTRIBUTING TO THE STRENGTH OF THE DM AND HE HOPED THAT SOMETHING COULD BE DONE ABOUT THEM. POEHL CONTINUED TO PROFESS OPTIMISM CONCERNING THE EC SNAKE. HE RULED OUT ANY FURTHER DM REVALUATIONS AND SPECULATED THAT IF THE FRG, AS WAS LIKELY, SHOULD BEGIN TO
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ACTION SS-25

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FM AMEMBASSY BONN

TO SECSTATE WASHDC PRIORITY 6406

C O N F I D E N T I A L SECTION 02 OF 02 BONN 10360

EXDIS

ACQUIRE SIGNIFICANT AMOUNTS OF OTHER EC CURRENCIES BY SEPTEMBER OR OCTOBER IN THE OPERATION OF THE SNAKE, THIS MIGHT FIT WELL INTO OVERALL POLICIES BOTH BY LEADING TO SOME MONETARY EASING IN GERMANY AND BY PUTTING SOME PRESSURE FOR GREATER STABILIZATION EFFORTS ON HER PARTNERS. HE FELT THAT IT WAS INEVITABLE THAT WITHIN THE EC THE DM WOULD CONTINUE TO BE THE STRONGEST CURRENCY AND HALF-JOKINGLY OBSERVED THAT EC RESERVE "POOLING" INCREASINGLY MIGHT TAKE THE FORM OF THE RESERVES ENDING UP IN FRANKFURT. WHILE THIS HAD DISADVANTAGES, IT ALSO HAD ADVANTAGES AND WOULD INCREASE GERMANY'S POLITICAL WEIGHT WITHIN THE EC.

4. POEHL WAS CONSIDERABLY MORE RELAXED THAN AT OUR LAST MEETING CONCERNING US DOMESTIC ECONOMIC POLICIES OR A POSSIBLE FRG DEMAND CONCERNING THEM AT THE TIME OF THE C-20 MINISTERIAL MEETING. HE SAID THAT THE FRG WAS NOT LIKELY TO PRESS US FOR ANYTHING OTHER THAN A GENERAL CONTINUATION OF AS RESTRICTIVE DOMESTIC POLICIES AS POSSIBLE. GISCARD PROBABLY WOULD MAKE SOME STATEMENTS ALONG THE LINES OF HIS RECENT PUBLIC REMARKS, BUT POEHL CHARACTERIZED THEM AS "ONLY WORDS" SINCE IN FACT THERE WAS NOT MUCH THAT COULD BE DONE AND FRANCE DID NOT REALLY KNOW WHAT IT WANTED DONE. ON THE INTERNATIONAL SIDE POEHL THOUGHT THAT THERE WERE SOME THINGS THAT MIGHT BE DONE. HE AGAIN MENTIONED

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GOLD SALES ON THE FREE MARKET AND OBSERVED THAT THE PROBLEM HERE WAS FRANCE. HE ALSO INDICATED THAT THE FRG WAS STILL CONSIDERING WHETHER TO SUGGEST A LARGE US DOLLAR BOND ISSUE ON THE EURO-MARKET. THE FINAL FRG POSITION WILL ONLY BE DETERMINED WHEN HE GETS TOGETHER WITH MINISTER SCHMIDT WHO WILL BE TRAVELING TO WASHINGTON DIRECTLY FROM HIS VACATION. BUT HE, POEHL, NO LONGER SEEMED TO BE THINKING OF A STRONG FRG INITIATIVE IN THIS FIELD VIS A VIS THE US (SEE REFTTEL), BUT RATHER OF A RELATIVELY RELAXED MEDIATOR ROLE.

5. CONCERNING THE MONETARY REFORM DISCUSSION AT THE C-20, POEHL SAID THAT HE PERSONALLY WAS BECOMING INCREASINGLY CONVINCED THAT IT WOULD BE POLITICALLY NECESSARY TO COME OUT OF THE NAIROBI MEETING WITH A SIGNIFICANT AMOUNT OF REAL AGREEMENT ON THE INTERNATIONAL MONETARY REFORM. HE THEREFORE FELT IT IMPORTANT THAT THE C-20 MINISTERS REACH COMPROMISES AT THEIR UPCOMING MEETING. HE AND HIS STAFF WERE PREPARING GERMAN SUGGESTIONS FOR SUCH COMPROMISES ON ALL OF THE MAJOR ISSUES WHICH IN RESPONSE TO A QUESTION HE ENUMERATED TO BE THE ADJUSTMENT PROCESS, ASSET SETTLEMENT, GOLD, THE LINK AND MORE TECHNICAL PROBLEMS CONCERNING SDR'S. I AND THE FINANCIAL ATTACHE TRIED TO PROBE POEHL CONCERNING THE NATURE OF THE COMPROMISES THE GERMANS MIGHT PROPOSE. HE DECLINED TO GO INTO ANY DETAIL, HOWEVER, SAYING THAT HE HAD NOT YET HAD A CHANCE TO DISCUSS THESE IDEAS WITH MINISTER SCHMIDT. AS WE KNOW, MINISTER SCHMIDT HAD IN THE PAST TENDED TO CONSIDER THE REFORM DISCUSSIONS NOT TO BE OF VERY GREAT URGENCY AND HAD FELT THERE WAS SOME ADVANTAGE IN NOT PUSHING THEM TOO VIGOROUSLY UNTIL THE DOLLAR AND THE US BALANCE OF PAYMENTS HAD STRENGTHENED. HE, POEHL, DID NOT KNOW THEREFORE WHETHER, TO WHAT EXTENT AND IN WHAT FORM SCHMIDT MIGHT NOW WANT TO PRESS FOR COMPROMISES AT THE UPCOMING C-20 MEETING AND IN ADDITION DID NOT KNOW HOW SCHMIDT WOULD REACT TO THE SPECIFIC PROPOSALS

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WORKED OUT BY HIS STAFF. POEHL DID MENTION, HOWEVER,

THAT ON ASSET SETTLEMENT HE COULD IMAGINE A SYSTEM
WHEREBY THE MAJOR INDUSTRIAL COUNTRIES WOULD AGREE
ON PRIME ASSET SETTLEMENTS (BETWEEN THEMSELVES?)
WHILE ALLOWING A LESS STRICT SYSTEM FOR THE LDC'S.

6. COMMENT: WHETHER POEHL'S MORE RELAXED ATTITUDE
WILL ACTUALLY BE REFLECTED IN WHAT MINISTER SCHMIDT
SAYS WHEN HE COMES TO WASHINGTON REMAINS TO BE SEEN.
THE FINANCE MINISTER HAS DEMONSTRATED IN THE PAST
HIS CAPACITY TO INJECT CONSIDERABLE EMOTIONAL
CONTENT INTO DISCUSSIONS OF MONETARY PROBLEMS.
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